Black Hills Energy

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April 6, 2015

Nebraska Public Service Commission
1200 N Street
Suite 300
Lincoln, Nebraska 68508

Attn: Mr. Steve Meradith
Executive Director

Re: Black Hills/Nebraska Gas Utility, LLC d/b/a Black Hills Energy
Pipeline Replacement Charge

Dear Mr. Meradith:

Pursuant to Sections 66-1802, 66-1865, 66-1866, and other applicable provisions of the State Natural Gas Regulation Act ("Act"), *Neb. Rev. Stat. §§ 66-1801 et seq*. Black Hills/Nebraska Gas Utility Company, LLC d/b/a Black Hills Energy ("Black Hills Energy") herewith submits for filing with the Nebraska Public Service Commission (Commission) an original and eight paper copies of the following tariff sheets:

Index No. 2, Seventh Revised Sheet 1 of 2
Index No. 17, Second Revised Sheet
Canceling Original Index Nos. 2, and 17

By this Application, Black Hills Energy is proposing to recover its statutory jurisdictional revenue deficiency limit of $1,515,269 (Exhibit C, Schedule 6, Line 7) through an additional monthly "Pipeline Replacement Charge" for all Residential, Commercial, and Energy Options-Firm customers located within Black Hills Energy's Rate Areas I, II, and III. [1]

The additional Pipeline Replacement Charge proposed in this Application is to recover the incremental annual revenue requirement impact of costs incurred and capitalized by Black Hills Energy with respect to the eligible infrastructure replacement projects as defined in Sections 66-1802(6), 66-1865 and 66-1866 of the Act. The project costs identified for recovery in this Pipeline Replacement Charge Application were not

[1] Although not a direct Commission consideration to approval of this Application, Black Hills Energy notes that it also requests increased revenue from its Non-jurisdictional customers for purposes including pipeline safety and integrity as permitted in contracts with High Volume customers as defined in Neb Rev. Stat. § 66-1802 and negotiated pursuant to Neb. Rev. Stat. § 66-1810.

included in the rate base calculation in Black Hills Energy's most recently completed Nebraska rate case, Docket NG-0061, and are all in service and used and useful.

The Direct Testimony of Mr. Don Nordell and Mr. Jason Keil support the project costs included in this Pipeline Replacement Charge Application. That testimony describes how Black Hills Energy tracks the cost for the projects involved in this Application, and the process that it undertook to calculate the Pipeline Replacement Charge. The data included in this Application was obtained from Black Hills Energy's financial accounting records (e.g. PeopleSoft™), property accounting records (PowerPlant™), and Black Hills Energy's field operations records.

The underlying data was then analyzed and summarized in deriving the eligible projects and project costs included in the Pipeline Replacement Charge Application. A summary of the eligible project data is provided in the Schedules attached to the Application. The data is further supported and verified by testimony, testimony attachments, and work papers provided with the Application. Those testimony attachments and work papers include detailed project descriptions and other underlying data that is incorporated by reference into the Pipeline Replacement Charge Application. Due to the number of projects involved, Black Hills Energy is prepared to provide the Public Advocate and/or the Commission with additional details on any project that it may identify through reasonable data sampling techniques. Black Hills Energy will supplement or explain information on any projects as determined appropriate or necessary by the Public Advocate or the Commission.

If approved by the Commission, the Pipeline Replacement Charge by customer class will be as follows:

- Residential Customer class $0.50 per month;
- Commercial Customer class $1.87 per month;
- Energy Options – Firm Customer class $2.31 by month.

The Pipeline Replacement Charge has been calculated in accordance with Neb. Rev. Stats. §§ 66-1802, 66-1865, 66-1866, and other applicable provisions of the Act as more fully discussed herein. The tariff sheets included with this Application bear a proposed effective date of August 6, 2015. However, Black Hills Energy understands that under section 66-1866(3)(c) the Act the Commission has 120 days or longer if necessary to issue an order, and that the actual effective date of the Pipeline Replacement Charge could be after August 6 , 2015.

This Pipeline Replacement Charge Application includes the following exhibits:

Exhibit A – Clean version of proposed Tariffs
Exhibit B – Redlined version of proposed Tariffs
Exhibit C – Pipeline Replacement Charge Calculation Schedules
Exhibit D – Direct Testimony of Don Nordell
Exhibit E – Direct Testimony of Jason Keil

I. Calculation of Black Hills Energy's Pipeline Replacement Charge

The calculation of Black Hills Energy's Pipeline Replacement Charge is shown on the schedules provided in Exhibit C of the Pipeline Replacement Charge Application. The Direct Testimony of Jason Keil and in particular, Attachment JSK-1 supports the detailed calculations of the costs included for recovery in this Pipeline Replacement Charge Application.

This Pipeline Replacement Charge Application complies with the requirements of the Act. For example, Exhibit C of this Application along with Attachment JSK-1 of the Direct Testimony of Mr. Keil and various Attachments of the Direct Testimony of Mr. Don Nordell contain the information required by the Act.

> **Specifically, Neb. Rev. Stat. § 66-1802 (6)** defines "Eligible infrastructure system replacement" to mean jurisdictional utility plant projects that:
>
> (a) Do not increase revenue by directly connecting the infrastructure system replacement to new customers;
> (b) Are in service and used and required to be used;
> (c) Were not included in the jurisdictional utility's rate base in its most recent general rate proceeding; and
> (d) May enhance the capacity of the system but are only eligible for infrastructure system replacement cost recovery to the extent the jurisdictional utility plant project constitutes a replacement of existing infrastructure.
>
> **Neb. Rev. § 66-1802 (14)** defines "Jurisdictional utility plant projects" to mean only the following:
>
> (a) Mains, valves, service lines, regulator stations, vaults, and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities;
> (b) Main relining projects, service line insertion projects, joint encapsulation projects, and other similar projects extending the useful life or enhancing the integrity of pipeline system components undertaken to comply with state or federal safety requirements; and
> (c) Facility relocations required due to construction or improvement of a highway, road, street, public way, or other public work by or on behalf of the United States, this state, a political subdivision of this state, or another entity having the power of eminent domain, if the costs related to such relocations have not been reimbursed to the jurisdictional utility;
>
> **Neb. Rev. Stat. § 66-1866(2)** states that when a jurisdictional utility governed by this section files an application with the commission seeking to establish or change any infrastructure system replacement cost recovery charge rate schedules, it shall submit to the commission with the application proposed infrastructure

system replacement cost recovery charge rate schedules and supporting documentation regarding the calculation of the proposed infrastructure system replacement cost recovery charge rate schedules, including (a) a list of eligible projects, (b) a description of the projects, (c) the location of the projects, (d) the purpose of the projects, (e) the dates construction began and ended, (f) the total expenses for each project at completion, and (g) the extent to which such expenses are eligible for inclusion in the calculation of the infrastructure system replacement cost recovery charge.

Neb. Rev. Stat. § 66-1866(5) provides that in determining the appropriate pretax revenue, the commission shall consider the following factors:

(a) The net original cost of eligible infrastructure system replacements. For purposes of this section, the net original cost means the original cost of eligible infrastructure system replacements minus associated retirements of existing infrastructure;
(b) The accumulated deferred income taxes associated with the eligible infrastructure system replacements;
(c) The accumulated depreciation associated with the eligible infrastructure system replacements;
(d) The state, federal, and local income tax or excise tax rates at the time of such determination;
(e) The jurisdictional utility's actual regulatory capital structure as determined during the most recent general rate proceeding of the jurisdictional utility;
(f) The actual cost rates for the jurisdictional utility's debt and preferred stock as determined during the most recent general rate proceeding of the jurisdictional utility;
(g) The jurisdictional utility's cost of common equity as determined during the most recent general rate proceeding of the jurisdictional utility; and
(h) The depreciation rates applicable to the eligible infrastructure system replacements at the time of the most recent general rate proceeding of the jurisdictional utility.

Neb. Rev. Stat. § 66-1866 (6)(a) provides that the monthly infrastructure system replacement cost recovery charge rate shall be allocated among the jurisdictional utility's classes of customers in the same manner as costs for the same type of facilities were allocated among classes of customers in the jurisdictional utility's most recent general rate proceeding. An infrastructure system replacement cost recovery charge rate shall be assessed to customers as a monthly fixed charge and not based on volumetric consumption. Such monthly charge shall not increase more than fifty cents per residential customer over the base rates in effect at the time of the initial filing for any infrastructure system replacement cost recovery charge rate schedules. Thereafter, each subsequent filing shall not increase the monthly charge by more than fifty cents per residential customer over that charge in existence at the time of the most recent application for any infrastructure system replacement cost recovery charge rate schedules.

The "Jurisdictional" component of the revenue requirement was determined based on a review of the eligible infrastructure projects and the relationship of the project to Black Hills Energy's "Jurisdictional" and "Non-Jurisdictional" customer base. The split between "Jurisdictional" and "Non-jurisdictional" customer based projects are identified on Exhibit C, Schedule 3.4, Column F.

II. Pipeline Replacement Charge Application – Exhibit C – Summary of Schedules

A summary of the information shown on each schedule in Exhibit C of the Pipeline Replacement Charge Application is as follows:

Schedule 1 – This schedule shows the derivation of Black Hills Energy's revenue deficiency after the addition of $11,029,480 to Black Hills Energy's total State rate base (i.e., $11,029,457 of additional Jurisdictional rate base). The total State revenue deficiency is $1,866,098 while the Jurisdictional component is $1,866,094.

By this filing, Black Hills Energy is seeking to recover its statutory jurisdictional revenue deficiency limit of $1,515,269 (Exhibit C, Schedule 6, Line 7) from its jurisdictional residential, commercial, and Energy Options – Firm customer classes.

The determination of the revenue deficiency requires calculation of the incremental earnings required by Black Hills Energy for the capital expenditures (i.e., safety and pipeline infrastructure replacements or additions to rate base) invested in eligible infrastructure replacement projects.

The incremental earning amount included on Schedule 1 is derived by calculating the product of rate base additions and retirements (shown on Exhibit C, Schedule 3) and the overall return on rate base approved by the Commission in Black Hills Energy's most recent general rate case proceeding, in Docket No. NG-0061 (shown on Exhibit C, Schedule 2, Line 6).

This sum is then added to the impact of incremental depreciation expense on Black Hills Energy's net operating income, which impact is quantified on Exhibit C, Schedule 5, Line 7). The sum of the incremental earning required and the change in net operating income constitutes the overall pre-tax revenue deficiency resulting from completion the eligible infrastructure replacement projects.

The final step in the Schedule 1 calculation is to gross-up the deficiency for the income taxes applicable to said revenue to produce the overall revenue deficiency underlying the proposed Customer Charge through Black Hills Energy's filing.

Schedule 2 – This schedule shows the derivation of the cost of capital used in determining the incremental revenue requirement underlying the Pipeline Replacement Charge proposed through this Application. As required by Section 66-1866(5)(e), (f), and (g) of the Act, Black Hills Energy has used the capital structure, cost of debt, and cost of equity approved by the Commission in Black Hills Energy's most recent Nebraska general rate case, Docket No. NG-61. The approved rates from Black Hills Energy's Docket No. NG-61 rate proceeding are shown on Schedule 2, Lines 4 through 6.

Schedule 3 – This schedule shows the total State and Jurisdictional additions and retirements to plant in service, provision for accumulated depreciation and amortization, and accumulated deferred income tax by FERC account.

Schedule 3.1 – This schedule is a summary for total State and Jurisdictional additions to Plant in Service and Retirements by Plant Acct & Description from the detail by project information provided in Schedule 3.4.

Schedule 3.2 – This schedule is a summary for total State and Jurisdictional Provision for Accumulated Depreciation and Amortization by Plant Acct & Description from the detail by project information provided in Schedule 3.4.

Schedule 3.3 – provides detailed project information required by 66-1865(2) and 1866(5) of the Act. For example, Schedule 3.3 provides a list, project description, the project, categories of "integrity" replacements made by Black Hills Energy, and the total cost of each eligible infrastructure replacement project and the FERC accounts in which project dollars were recorded. This schedule also shows associated plant retirements by FERC account.

Schedule 3.4 – provides detailed project information required by Section 66-1866(2) and 1866(5) of the Act. Specifically, this schedule lists; (a) the eligible project, (b) a general description of the categories of the eligible projects, (c) lists the general location of the project, (the general purpose of the project (see also Schedule 3.3), (e) the date construction began and ended (the capitalization date), and (f) the total expenditures capitalized on the project, retirements associated with the project, and the net plant additions associated with each eligible project. This schedule also shows the number of months that the project has been in service as of January 31, 2015, the depreciation rate applicable to the plant accounts for each project, and the accumulated reserve for depreciation and amortization associated with each project since the capitalization date.

In addition, Schedule 3.4 shows the derivation of the annual depreciation expense (total State and Jurisdictional) associated with the additions and retirements for each project listed in the schedule. Finally Schedule 3.4 provides the calculation of accumulated deferred income taxes for each project. The total state and jurisdictional amounts for accumulated deferred income taxes are included on Exhibit C, Schedule 3, Line 25.

Schedule 4 –This schedule shows the total State and Jurisdictional net operating income before income tax impact for the annualized depreciation calculation provided in Schedule 3.4. *Neb. Rev. Stat. § 66-1866(5)(c).*

Schedule 5 – This schedule shows the derivation of federal and state income taxes (total State and Jurisdictional) associated additions and retirements of the plant in service reflected in Black Hills Energy's Application. *Neb. Rev. Stat. § 66-1866(5)(d).*

Schedule 6 – This schedule shows the derivation of the Pipeline Replacement Charge for each jurisdictional customer class resulting from Black Hills Energy's additional investment in safety and infrastructure replacements or additions to its rate base since the last rate proceeding. The Pipeline Replacement Charges are reflected in Black Hills Energy's Application and on the proposed tariffs provided in Pipeline Replacement Charge Application Exhibit A. *Neb. Rev. Stat. §§ 66-1866(3) and (6).*

This schedule shows the statutory jurisdictional revenue deficiency limit of $1,505,731 (Exhibit C, Schedule 6, Line 7) through an additional monthly "Pipeline Replacement Charge" for all Residential, Commercial, and Energy Options-Firm customers located within Black Hills Energy's Rate Areas I, II, and III.

III. Summary of Eligible Pipeline Replacement Charge Projects

As stated in the Direct Testimony of Don Nordell, Black Hills Energy's Director of Business Operations, filed as Exhibit D to this Pipeline Replacement Charge Application, all capital projects are identified in Black Hills Energy's accounting system as "Specific" or "Blanket" projects.

As shown on Exhibit C, Schedule 3.3 this Pipeline Replacement Charge Application identifies 396 eligible infrastructure replacement projects. The list of eligible projects includes 240 Specific projects and 156 Blanket projects for a total of 396 projects.

Under Black Hills Energy's organization, "Blanket" projects are capital projects that will (i) occur daily, (ii) cost less than $10,000, and (iii) are not tracked by individual project number. The "Blanket" code identifies the expenditure as a service line, main replacement, or meter set replacement, and it classifies the expense as a replacement, retirement, or new, project. After a project included under a Blanket project code is completed, the infrastructure project is identified in Black Hills Energy's accounting system, and then the actual cost is recorded on the Company's books and records.

"Specific" projects normally cost over $10,000, have a project duration that is longer than a few days, and the project description describes the type of work being completed. Specific projects usually include replacing large sections of deteriorating gas main, rebuilding district regulator stations, updating obsolete odorizer systems, or relocating mains for street improvement projects. After the "Specific" project is closed, the actual cost is recorded on Black Hills Energy's books and records.

The total cost of these projects less the associated retirements is approximately $12,868,916. The individual projects are too numerous to provide extensive narrative detail in this Application; however, Black Hills Energy has reviewed the costs and categories of project costs included within this Application to ensure that only "eligible" Pipeline Replacement Charge projects cost are included in the Application.

In accordance with Neb. Rev. Stat. § 66-1866, the following is a description of the purpose, level, and type of costs included in the projects presented in this Application (see also, Exhibit C, Schedules 3.3 and 3.4):

1. **Replacement of Distribution System "Mains" ($8,158,678.79)**

   Gas main replacements contain a variety of individual projects related to the integrity of Black Hills Energy's natural gas distribution system. All Black Hills Energy's main replacement projects are required to meet safety codes. Main replacement projects also include "government mandated relocations" to accommodate for road, sewer, and water infrastructure projects. Older mains are replaced due to deterioration due to age. All main replacement projects are documented with specific detail in Black Hills Energy's work management system.

   The $8,158,678.79 amount for Specific replacement main projects is comprised of 210 different projects. Black Hills Energy can validate the cost of each project included in the replacement mains category, and represents that each project qualifies for recovery under this Pipeline Replacement Charge Application. However, as a matter of convenience and administrative efficiency, Black Hills Energy limits the data presented in this document to its larger projects. Of the 210, 34 projects cost $70,000 or more. The chart below lists the project number, project description, and the total project cost. The project number is assigned by our work management system as the project is created and designed by our construction coordinators. The construction coordinator will develop a project description that best describes the type of work being performed and general location. For example, project number one refers to a government mandated road relocation project that was completed in Lincoln, NE. The project description identifies the location of the project on "Old Cheney Road – 070th to 84". This description provides everyone associated with the project a good reference with a specific description of the location of the street widening project. The second project also identifies a government mandated relocation project in the Norfolk, NE. The project description is "GMRNF HWY 35 RELOCATION NORFOL", which clearly identifies the location and type of project. The gas main replacement non-fame (GMRNF) is an acronym that is derived from our work management system that identifies the type of project being created and designed in the work management system. The acronym can be used as a query in our work management system to identify a series of similar projects in the assigned work area. In the project list, you will notice two different project types listed in the project description, gas main replacement (GMR) and gas main replacement non-fame (GMRNF). The only difference between the two gas main replacement acronyms is how the project is designed in the work management system using our mapping tool. There are six construction coordinators in Nebraska creating and designing projects, so there are some minor format differences in the project descriptions that have been utilized across our service territory.

A listing of the 34 projects is as follows:

No.	Project Number	Project Description	Total (Project Cost)
1	60021297	OLD CHENEY ROAD - 070TH TO 084	$ 475,710.51
2	60020107	GMRNF HWY 35 RELOCATION NORFOL	$ 248,115.41
3	60022173	FAIRBURY 9TH TO 13TH STR. BTW	$ 209,770.29
4	60021540	GMR CALVERT - 014TH TO 027TH	$ 204,205.90
5	60020737	GMRNF CI MEADOW GROVE 2013 MEA	$ 194,220.46
6	60022163	FAIRBURY MCDOWELL BETWEEN 2ND	$ 187,259.05
7	60021469	84TH ST ROAD PROJECT PAPILLION	$ 166,902.95
8	60022446	GMR NDOR PROJECT ON HWY 133 B	$ 162,380.94
9	60020104	GMRNF SCHUYLER BS REPLACE 012T	$ 161,692.42
10	60020873	GMR HARTLEY-TOUZALIN TO N 66T	$ 153,651.76
11	60022154	TEKAMAH BARE STEEL REPLACE TEK	$ 152,502.66
12	60022192	GMRNF FAIRBURY NELSON STR. TO	$ 142,184.43
13	60020106	GMRNF NORFOLK CI REPLACEMENT #	$ 127,379.18
14	60021520	GMR VALLEY BARE STEEL REPLACE	$ 124,697.77
15	60020593	GMR 033RD STREET - ORCHARD TO	$ 122,969.08
16	60022196	GMRNF FAIRBURY 6TH ALLEY W. OF	$ 120,437.86
17	60021690	2014 CI WINTHROP WINTHROP SOUT	$ 109,895.62
18	60021533	DAVID CITY B ST 6" BS REP B ST	$ 109,542.12
19	60020459	GMR 56TH STREET - A TO RANDOLP	$ 108,787.16
20	60022249	CI LEIGHTON - 59 TO 65 LEIGHTO	$ 106,974.24
21	60021759	GMR 027TH STREET - SHERMAN TO	$ 106,689.22
22	60020093	2" BS REPLACE 011TH ST N BETWE	$ 100,313.98
23	60020105	GMRNF NORFOLK CI REPLACE #12 M	$ 99,572.37
24	60021492	WALNUT ST E TO PROSPECT WEST P	$ 94,696.91
25	60021487	GMRNF WALTHILL PIPE BRIDGE FAR	$ 94,027.42
26	60022311	GMR ALLEY - O33RD AND STARR L	$ 87,674.67
27	60020585	GMR 2013 CAST IRON PROJECT 013	$ 82,662.29
28	60021814	D STREET - 04TH TO 8TH STREET	$ 80,902.02
29	60020495	GMR GRETNA-NEBRASKA CROSSING	$ 76,461.13
30	60021640	GMR 002 ST MAIN REPLACE LOUIS	$ 76,264.34
31	60020486	GMR BEATRICE SARGENT RD. BETWE	$ 73,262.34
32	60022198	GMRNF FAIRBURY 6TH TO 2ND D TO	$ 73,209.30
33	60022195	GMRNF FAIRBURY A STR. ALLEY W.	$ 72,023.21
34	60021483	CI 63RD & BENTON N 63RD ST AND	$ 70,960.98

The total for these 34 projects is $4,577,999.99 or 51% of the total. The listing consists of 16 cast iron main replacement projects, 13 bare steel main replacement projects, and 5 mandated relocation projects.

The majority of the replacement work performed was in the communities of Lincoln, Fairbury, and Norfolk.

2. **Replacement Mains – Operating Components ($133,597.65)**

During the replacement of cast iron and bare steel mains, control valves were replaced to minimize the loss of gas pressure provided to customers during an emergency situation. These control valves assist gas company personnel to isolate problem areas which reduces the time customers are without gas service. Operable control valves are an essential component in the safe delivery of service to our customers.

According to the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration Part 192, subsection 181, "each high pressure distribution system must have valves spaced as to reduce the time to shut down a section of main in an emergency."

3. **District Regulator Stations/Odorizers ($617,278.91)**

District Regulator Stations. A district regulator station is a secondary regulating facility located downstream of a town border station on gas distribution systems where pressures are regulated by jurisdictional agencies and/or system operating requirements to balance gas supply pressure such that every customer's demand is met. The components that make-up a District Regulator Station requires replacement when those components become obsolete, inoperable, or unreliable. Each year, Black Hills Energy's Field Measurement Technicians conduct inspections of the equipment and document their findings. District Regulator Stations that fail to pass the compliance standards are noted for repair and replacement during the next construction cycle. The District Regulator Stations that were upgraded or replaced during this timeframe were determined to qualify for repair or replacement.

According to the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration Part 192, subsection 743, "pressure relief devices at pressure limiting stations and pressure regulating stations must have sufficient capacity to protect the facilities to which they are connected".

The total amount invested to replace district regulator stations is $469,187.

Odorizers. Natural gas is an odorless, colorless gas that is lighter than air. Mercaptan is added to the natural gas system to provide it with an odor that is readily detectable by a person with a normal sense of smell. Odorizers provide the operators the tools to introduce the proper odorant levels into the flow of gas. Odorizers become obsolete and unreliable over time. Similar to the district regulator stations, odorizers that fail to introduce and maintain an acceptable concentration of odorant in the gas stream must be repaired or replaced. The cost of repair or replacement for odorizer equipment included in this Pipeline Replacement Charge Application met the conditions described above.

According to the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration Part 192, subsection 625, "a combustible gas in a distribution line must contain a natural odorant or be odorized so that a concentration in air of one-fifth of the lower explosive limit, the gas is readily detectable by a person with a normal sense of smell.
The total amount invested to replace odorizers is $148,091.

4. Replacement of Service Lines ($3,774,160.27)

Service lines are the natural gas pipeline connecting Black Hills Energy's distribution system Mains to customer's premise. These lines are owned by Black Hills Energy and link up customers located near Black Hills Energy's distribution Mains.

Service line replacements are made when a service line fails due to a variety of factors. For example, A service line may need to be repaired or replaced due to the following circumstances: age or type of material, inactivity, or relocated due to a road, water, sewer project.

The majority of service line replacements since the 2013 Pipeline Replacement Charge Application have been associated with our cast iron and bare steel replacement projects. As "older" mains are replaced, service lines are evaluated in a similar manner for replacement during the "main" construction project to minimize interruption to our customers. The Service lines replaced since Black Hills Energy's last filing are as follows:

Year 2013, (July 1 – December 31) – 719
Year 2014 – 979
Year 2015 - 6

The total of number of service lines since the last Pipeline Replacement Charge Application is 1704.

According to the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration Part 192, subsections 361-383 outline the requirements around service line installations, service valve requirements, connections to various types of main and inactive service lines.

5. **Residential/Commercial Meter Set Replacements: ($1,088,087.99)**

The meter set is an integral component of our distribution system to ensure our customers receive the proper pressures with accurate measurement. Service regulators are components attached to a service line that control the pressure of gas from a higher pressure to the proper operating pressure required for the gas utilization equipment of our customers. Meter sets are evaluated for replacement during each of our main replacement projects to determine its service life, leak history, age of equipment, and other safety factors. These expenses represent the costs associated with providing the proper regulation equipment for our residential and small commercial customers.

According to the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration Part 192, subsections 351-359, these provisions outline the requirements for location, protection from damage, and installation standards.

The majority of the investments associated in this Pipeline Replacement Charge Application are associated with our cast iron and bare steel main replacements.

The total additions related to meter set replacements equal $14,427,612 before retirements.

IV. Prorated Pipeline Replacement Charge

Black Hills Energy has proposed an effective date of August 6, 2015 to begin charging the additional Pipeline Replacement Charges. Clean and tracked proposed tariffs are provided in Exhibits A and B of this Application. Black Hills Energy would pro-rate the monthly charge to its customers.

V. Communications

Any communication associated with this Application should be directed to the following individuals:

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VI. Conclusion

BHE proposes to include Plant Additions put in service from July 1, 2013 through January 31, 2015. The total cost of these projects less the associated retirements is $12,868,915. BHE extracted all Plant Additions and Retirements, excluding General Plant accounts, for this Application from the Company's Power Plant Property System. Capital projects in Black Hills Energy's property system are identified as "Specific" or "Blanket" projects. In addition, all Plant Additions and Retirements are assigned to a Work (Project) Order Number. If approved, the Pipeline Replacement Charge by customer class will a charge of $0.50 per month for Residential customers, $1.87 per month for Commercial customers, and $2.31 per month for Energy Options – Firm Customer.

For the reasons provided in this Pipeline Replacement Charge Application and accompanying exhibits, Black Hills Energy requests that the Commission approve the Application and make its tariffs effective on August 6, 2015 or as soon as reasonably possible thereafter.

Questions about this filing or requests for additional information should be directed to the undersigned at 402-221-2227.

Respectfully submitted,

/s/ Robert J. Amdor

Robert J. Amdor

Regulatory Services Manager

Cc: **<u>Commission Staff</u>**
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